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C O N F I D E N T I A L SECTION 01 OF 02 BUENOS AIRES 001042

SIPDIS

SAO PAOLO FOR BLOCK; TREASURY FOR LINDQUIST

E.O. 12958: DECL: 09/18/2019

TAGS: ECON EFIN EINV ETRD AR

SUBJECT: ARGENTINA: FINANCE SECRETARY SAYS HOLDOUT  
AGREEMENT IMMINENT

Classified By: DCM Tom Kelly for reasons 1.4 (B) and (D)

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Summary  
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¶11. (C) Hernan Lorenzino, the Secretary of Finance in the Ministry of Economy and Public Finances, told a visiting Treasury delegation accompanied by Econ Couns on September 10 that the GOA is seriously pursuing negotiations with the "holdouts" from the 2005 debt repayment arrangements and that an announcement regarding a resolution of the problem can be expected within the next few weeks. He also said that the GOA is pursuing concurrent negotiations with the IMF regarding normalizing relations with that organization. Once the holdout and IMF issues are resolved, Lorenzino indicated that the GOA would deal with the Paris Club creditors. Most private sector analysts are not optimistic regarding the prospect that any of these problems will be resolved soon.  
End Summary.

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Economy Recovering  
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¶12. (C) Lorenzino opened by saying that Argentina's financial situation, in line with that of many other emerging economies, is better now than it has been over the past year. Noting that the GOA's 2009 financial situation is "very comfortable," he said that this year's financial needs will not be hard to meet. At the same time, he said that new Economy Minister Boudou is a supporter of the free market and wants to raise money in the international markets at some point. In the meantime, the GOA is exploring the possibility of seeking funding sources domestically, noting that Argentine banks and insurance companies are "very liquid." However, he emphasized that the most important GOA initiative at this time is to lay the groundwork for solving the external debt problem.

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Solve the Holdouts First  
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¶3. (C) Lorenzino stated that the GOA has developed a step-by-step strategy to deal with this problem, calling for dealing first with the holdouts, then with the IMF, and lastly, with the Paris Club. In this regard, he said that there have been serious and detailed negotiations with several of the holdout groups, which he expected would yield an agreement to be announced within the next few weeks. He indicated that the holdouts the GOA was dealing with were large U.S. and European institutional investors who are the most likely among the holdout groups to be willing to come to an agreement. Noting that the more positive international financial situation of recent months has helped create a good atmosphere for dealing with the problem, he expressed the hope that reaching an agreement with one large institutional investor will lead to agreements with the rest of the holdouts as well. He acknowledged, however, that the holdouts who have taken their cases to court would be the most difficult to deal with, and he did not foresee any quick progress in resolving their cases. He stressed that the most important step had already been taken -- that of beginning the negotiating process. Once an agreement is reached with one group, it will be easier to deal with the rest.

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Plan Has GOA Backing

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¶4. (C) Lorenzino claimed that the GOA (comment: implicitly the Kirchners, end comment) fully backed this overall strategy and specifically the ongoing -- but still informal -- negotiations with the holdouts. However, he noted that an important obstacle still to be overcome is the need to change Argentine law regarding the type of deal the government is allowed to reach with the holdouts. He said that the legislation passed in 2005 requires that any future deals with the holdouts be less advantageous than the deal reached with creditors in 2005. Saying that new legislation would be required to authorize a resolution in any case, he implied that the government would not have any trouble securing its passage before the new Congress takes office in December.

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Normalize With IMF  
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¶5. (C) Lorenzino also indicated that the GOA is pursuing concurrent negotiations with the IMF to normalize relations. He did not dismiss out of hand the possibility of submitting to some sort of Article Four conditionality in this context. However, he acknowledged that these negotiations were not advancing rapidly and were not likely to bring results before the end of the year. Finally, he stated that the GOA would only seriously pursue an agreement with the Paris Club creditors after reaching agreements with the holdouts and the IMF.

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Comment  
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¶6. (C) There have been numerous declarations in the past by GOA officials regarding reaching agreements with the IMF and international creditors, all of which have come to naught. Lorenzino has also been known to be very forward leaning, sometimes staking out positions far beyond those supported by the GOA leadership. However, his declaration regarding an imminent breakthrough with the holdouts was uncharacteristically specific, even though he took great

pains to indicate that the relatively advanced status of the negotiations was very closely held. Such an important development, however, would normally be known in the close-knit Argentine financial community. However, when queried in general after this meeting about the possibility of a deal, several private sector analysts, including an interested party, were not aware of an imminent agreement. While an agreement with the holdouts would be welcome -- paving the way towards Argentina's international financial rehabilitation -- most remain skeptical that one will be announced anytime soon, much less in the next few weeks.

MARTINEZ